

Message Text

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SUBJECT: COMMUNIQUE OF THE IMF INTERIM COMMITTEE MEETING

1. THE INTERIM COMMITTEE OF THE BOARD OF GOVERNORS OF THE INTERNATIONAL MONETARY FUND HELD ITS FIFTH MEETING IN KINGSTON, JAMAICA JANUARY 7-8, 1976 UNDER THE CHAIRMANSHIP OF MR. WILLY DE CLERCQ, MINISTER OF FINANCE OF BELGIUM, WHO WAS SELECTED BY THE COMMITTEE TO SUCCEED MR. JOHN TURNER OF CANADA AS CHAIRMAN. FOLLOWING ARE THE SUBSTANTIVE PARAGRAPHS OF THE PRESS COMMUNIQUE ISSUED JANUARY 8 IN KINGSTON, JAMAICA AND WASHINGTON, D.C.

QUOTE: 2. THE COMMITTEE ENDORSED THE RECOMMENDATIONS CONTAINED IN THE REPORT OF THE EXECUTIVE DIRECTORS ON THE SIXTH GENERAL REVIEW OF QUOTAS AND THE PROPOSED RESOLUTION
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ON INCREASES IN THE QUOTAS OF INDIVIDUAL MEMBERS TO BE SUBMITTED TO THE BOARD OF GOVERNORS FOR ITS APPROVAL. IN THIS CONNECTION, THE COMMITTEE REAFFIRMED ITS VIEW THAT THE FUND'S HOLDINGS OF EACH CURRENCY SHOULD BE USABLE IN

THE FUND'S OPERATIONS AND TRANSACTIONS IN ACCORDANCE WITH ITS POLICIES. APPROPRIATE PROVISIONS FOR THIS PURPOSE WILL BE INCLUDED IN THE DRAFT AMENDMENTS OF THE FUND'S ARTICLES. TO GIVE EFFECT TO THE COMMITTEE'S VIEW IN THE PERIOD BEFORE THE AMENDMENTS BECOME EFFECTIVE, IT WAS AGREED THAT, WITHIN SIX MONTHS AFTER THE DATE OF THE ADOPTION OF THIS FACTORY TO THE FUND FOR THE USE OF THE MEMBER'S CURRENCY IN THE OPERATIONS AND TRANSACTIONS OF THE FUND IN ACCORDANCE WITH ITS POLICIES, PROVIDED THAT THE EXECUTIVE DIRECTORS MAY EXTEND THE PERIOD WITHIN WHICH SUCH ARRANGEMENTS SHALL BE MADE.

3. THE COMMITTEE CONSIDERED THE QUESTION OF THE IMPLEMENTATION OF THE AGREEMENT REACHED AT ITS FOURTH MEETING REGARDING THE DISPOSITION OF A PART OF THE FUND'S HOLDINGS OF GOLD. IT WAS AGREED THAT ACTION SHOULD BE TAKEN TO START WITHOUT DELAY THE SIMULTANEOUS IMPLEMENTATION OF THE ARRANGEMENTS ON AUGUST 31, 1975. THE SALES OF GOLD BY THE FUND SHOULD BE MADE IN PUBLIC AUCTIONS ACCORDING TO AN APPROPRIATE TIMETABLE OVER A FOUR-YEAR PERIOD. IT IS UNDERSTOOD THAT THE BANK FOR INTERNATIONAL SETTLEMENTS WOULD BE ABLE TO BID IN THESE AUCTIONS.

4. IN ITS DISCUSSION OF THE WORLD ECONOMIC SITUATION AND OUTLOOK, THE COMMITTEE NOTED THAT RECOVERY FROM THE SEVERE INTERNATIONAL RECESSION OF 1974-75 WAS NOW UNDER WAY IN MUCH OF THE INDUSTRIAL WORLD. NEVERTHELESS, CURRENT RATES OF BOTH UNEMPLOYMENT AND INFLATION WERE STILL UNACCEPTABLY HIGH. THE COMMITTEE CALLED ON THE INDUSTRIAL COUNTRIES, ESPECIALLY THOSE IN RELATIVELY STRONG BALANCE OF PAYMENTS POSITIONS, TO CONDUCT THEIR POLICIES SO AS TO ENSURE A SATISFACTORY AND SUSTAINED RATE OF ECONOMIC EXPANSION IN THE PERIOD AHEAD WHILE CONTINUING TO COMBAT INFLATION.

A SPECIAL SOURCE OF CONCERN TO THE COMMITTEE WAS THE DETERIORATION IN THE EXTERNAL POSITION OF THE PRIMARY PRO-
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DUCING COUNTRIES, ESPECIALLY THE DEVELOPING ONES. THE GENERAL PICTURE FOR THE DEVELOPING COUNTRIES IN 1975 WAS AGAIN ONE OF LARGE BALANCE OF PAYMENTS DEFICITS ON CURRENT ACCOUNT, FINANCED THROUGH HEAVY EXTERNAL BORROWING AND THROUGH THE USE OF RESERVES ALREADY ERODED BY THE INFLA-

TION IN RECENT YEARS. WITH LARGE CURRENT ACCOUNT DEFICITS STILL IN PROSPECT THIS YEAR, THE COMMITTEE FELT THAT THE ABILITY OF MANY DEVELOPING COUNTRIES TO MAINTAIN AN ADEQUATE FLOW OF IMPORTS IN 1976, AND TO FOLLOW APPROPRIATE ADJUSTMENT POLICIES, WOULD ALSO DEPEND ON THE AVAILABILITY OF ADEQUATE CREDIT FROM THE FUND.

5. THE COMMITTEE WELCOMED THE RECENT DECISION OF THE EXECUTIVE DIRECTORS LIBERALIZING THE COMPENSATORY FINANCING FACILITY. UNDER THE NEW DECISION THE FUND WILL BE PREPARED TO AUTHORIZE DRAWINGS UP TO 75 PERCENT OF A

MEMBER'S QUOTA, AS AGAINST 50 PERCENT UNDER THE 1966 DECISION. MAXIMUM DRAWINGS IN ANY ONE YEAR ARE RAISED FROM 25 PERCENT TO 50 PERCENT OF QUOTA. MOREOVER, THE DECISION ENABLES THE FUND TO RENDER ASSISTANCE UNDER THE FACILITY AT AN EARLIER STAGE OF THE DEVELOPMENT OF A SHORTFALL.

6. THE COMMITTEE NOTED THE REPORT OF THE EXECUTIVE DIRECTORS ON THEIR REVIEW OF THE FUND'S POLICIES ON THE USE OF ITS RESOURCES, AND ALSO ON THE TRUST FUND FOR THE BENEFIT OF THE LOW INCOME MEMBERS. AFTER CONSIDERATION OF THE ISSUES INVOLVED, THE COMMITTEE REACHED THE FOLLOWING CONCLUSIONS:

(A) IT WAS AGREED THAT THE NECESSARY STEPS SHOULD BE TAKEN TO ESTABLISH THE TRUST FUND WITHOUT DELAY. ITS RESOURCES WOULD BE DERIVED FROM THE PROFITS OF THE SALES OF THE FUND'S GOLD, WHICH SHOULD BE AUGMENTED BY VOLUNTARY NATIONAL CONTRIBUTIONS. IT WAS AGREED THAT THE AMOUNT OF GOLD AVAILABLE FOR SALE IN ACCORDANCE WITH THE AGREEMENT REACHED BY THE COMMITTEE AT ITS FOURTH MEETING SHOULD BE DISPOSED OF OVER A FOUR-YEAR PERIOD. THE RESOURCES OF THE TRUST FUND SHOULD BE USED TO PROVIDE UNCLASSIFIED

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BALANCE OF PAYMENTS ASSISTANCE ON CONCESSIONARY TERMS TO MEMBERS WITH LOW PER CAPITA INCOMES. INITIALLY, ELIGIBLE MEMBERS WOULD BE THOSE WITH PER CAPITA INCOMES IN 1973 NOT IN EXCESS OF SDR 300.

(B) IT WAS FURTHER AGREED, THAT, UNTIL THE EFFECTIVE DATE OF THE AMENDMENT OF THE ARTICLES, THE SIZE OF EACH CREDIT TRANCHE SHOULD BE INCREASED BY 45 PERCENT, WHICH WOULD MEAN THAT TOTAL ACCESS UNDER THE CREDIT TRANCHES WOULD BE INCREASED FROM 100 PERCENT TO 145 PERCENT OF QUOTA, WITH THE POSSIBILITY OF FURTHER ASSISTANCE IN EXCEPTIONAL CIRCUMSTANCES. THE PRESENT KINDS OF CONDITIONALITY FOR THE TRANCHES WOULD REMAIN UNCHANGED. THE FUND WILL IN DUE COURSE CONSIDER AGAIN THE QUESTION OF ACCESS TO THE FUND'S RESOURCES IF IT BECOMES EVIDENT THAT THE NEEDS OF MEMBERS MAKE IT ADVISABLE TO RE-EXAMINE THIS QUESTION.

7. THE COMMITTEE NOTED THE REPORT OF THE EXECUTIVE DIRECTORS ON AMENDMENT, WELCOMED THE PROGRESS MADE TOWARD THE SOLUTION OF THE OUTSTANDING ISSUES, AND COMMENDED THEM FOR THE VOLUMINOUS AND SUCCESSFUL WORK THAT THEY HAD DONE IN ORDER TO ACHIEVE A MAJOR REVISION OF THE ARTI-

CLES. IN PARTICULAR, IT WELCOMED THE AGREEMENT THAT HAS BEEN REACHED ON PROVISIONS CONCERNING THE IMPORTANT PROBLEM OF EXCHANGE RATES. IN THIS RESPECT, IT HAS

ENDORSED A NEW ARTICLE IV OF THE ARTICLES OF AGREEMENT WHICH ESTABLISHES A SYSTEM OF EXCHANGE ARRANGEMENTS. THE NEW SYSTEM RECOGNIZES AN OBJECTIVE OF STABILITY AND RELATES IT TO ACHIEVEMENT OF GREATER UNDERLYING STABILITY IN ECONOMIC AND FINANCIAL FACTORS. THE COMMITTEE CONSIDERED THE REMAINING ISSUES ON WHICH ITS GUIDANCE HAS BEEN REQUESTED BY THE EXECUTIVE DIRECTORS AND AGREED AS FOLLOWS:

(A) THE AMENDED ARTICLES OF AGREEMENT SHOULD INCLUDE A PROVISION BY WHICH THE MEMBERS OF THE FUND WOULD UNDERTAKE TO COLLABORATE WITH THE FUND AND WITH OTHER MEMBERS IN ORDER TO ENSURE THAT THEIR POLICIES WITH RESPECT TO UNCLASSIFIED

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RESERVE ASSETS WOULD BE CONSISTENT WITH THE OBJECTIVES OF PROMOTING BETTER INTERNATIONAL SURVEILLANCE OF INTERNATIONAL LIQUIDITY AND MAKING THE SPECIAL DRAWING RIGHT THE PRINCIPAL RESERVE ASSET IN THE INTERNATIONAL MONETARY SYSTEM.

(B) THE AMENDED ARTICLES WOULD CONTAIN AN ENABLING PROVISION UNDER WHICH THE FUND WOULD BE ABLE TO SELL ANY PART OF THE GOLD LEFT AFTER THE DISTRIBUTION OF 50 MILLION OUNCES IN ACCORDANCE WITH THE ARRANGEMENTS REFERRED TO IN PARAGRAPH 3 ABOVE, AND USE THE PROFITS (1) TO AUGMENT THE GENERAL RESOURCES OF THE FUND FOR IMMEDIATE USE IN ITS ORDINARY OPERATIONS AND TRANSACTIONS, OR (2) TO MAKE BALANCE OF PAYMENTS ASSISTANCE AVAILABLE ON SPECIAL TERMS TO DEVELOPING MEMBERS IN DIFFICULT CIRCUMSTANCES. ON THE OCCASION OF SUCH SALES THE FUND WOULD HAVE THE POWER TO DISTRIBUTE TO DEVELOPING MEMBERS A PORTION OF THE PROFITS ON THE BASIS OF THEIR QUOTAS OR TO MAKE A SIMILAR DISTRIBUTION BY THE DIRECT SALE OF GOLD TO THEM AT THE PRESENT OFFICIAL PRICE. ANY DECISION ON SUCH A DISTRIBUTION SHOULD BE TAKEN BY AN 85 PERCENT MAJORITY OF THE TOTAL VOTING POWER. THESE POWERS OF THE FUND WOULD BE IN ADDITION TO THE POWER THAT THE FUND WOULD HAVE UNDER ANOTHER ENABLING PROVISION TO RESTITUTE TO ALL MEMBERS, ON THE BASIS OF PRESENT QUOTAS AND AT THE PRESENT OFFICIAL PRICE, ANY PART OF THE GOLD LEFT AFTER THE DISPOSITION OF THE 50 MILLION OUNCES REFERRED TO ABOVE.

(C) DECISIONS OF THE FUND ON THE USE OF THE PROFITS FROM THE SALE OF ITS GOLD IN THE REGULAR OPERATIONS AND TRANSACTIONS OF THE FUND SHOULD BE TAKEN BY A 70 PERCENT MAJORITY OF THE TOTAL VOTING POWER AND ON DECISIONS ON

USE OF THE PROFITS IN OTHER OPERATIONS AND TRANSACTIONS BY AN 85 PERCENT MAJORITY OF THE TOTAL VOTING POWER.

(D) THE EXECUTIVE DIRECTORS ARE URGED TO REVIEW, DURING THE FINAL STAGE OF THEIR WORK ON THE DRAFT AMENDMENTS, THE MAJORITIES FOR OPERATIONAL DECISIONS THAT DO NOT REFLECT COMPROMISES OF A POLITICAL CHARACTER WITH A VIEW TO CONSIDERING THE REDUCTION, IF POSSIBLE, OF THE NUMBER
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AND SIZE OF THE SPECIAL MAJORITIES THAT WOULD BE REQUIRED UNDER THE AMENDED ARTICLES FOR SUCH OPERATIONAL DECISIONS. SUCH A REVIEW SHOULD BE COMPLETED WITHIN THE COMING WEEKS AND SHOULD NOT DELAY THE COMPLETION OF THE COMPREHENSIVE DRAFT AMENDMENT.

(E) THE MAJORITY REQUIRED FOR THE ADOPTION OF DECISIONS ON THE METHOD OF VALUATION OF THE SDR UNDER THE AMENDED ARTICLES SHOULD BE 70 PERCENT OF THE TOTAL VOTING POWER, WITH THE EXCEPTION OF DECISIONS INVOLVING A CHANGE IN THE PRINCIPLE OF VALUATION OR A FUNDAMENTAL CHANGE IN THE APPLICATION OF THE PRINCIPLE IN EFFECT, WHICH SHOULD BE TAKEN BY AN 85 PERCENT MAJORITY OF THE TOTAL VOTING POWER.

(F) THE EXECUTIVE DIRECTORS SHOULD CONTINUE THEIR CONSIDERATION OF THE SUBJECT OF A SUBSTITUTION ACCOUNT WITHOUT DELAYING COMPLETION OF THE COMPREHENSIVE DRAFT AMENDMENT.

(G) WITH RESPECT TO THE OBLIGATION OF PARTICIPANTS IN THE SPECIAL DRAWING ACCOUNT TO RECONSTITUTE THEIR HOLDINGS OF SPECIAL DRAWING RIGHTS, IT WAS AGREED THAT THE AMENDED ARTICLES SHOULD AUTHORIZE THE FUND TO REVIEW THE RULES FOR RECONSTITUTION AT ANY TIME AND TO ADOPT, MODIFY, OR ABROGATE THESE RULES BY A 70 PERCENT MAJORITY OF THE TOTAL VOTING POWER.

8. THE COMMITTEE REQUESTED THE EXECUTIVE DIRECTORS TO COMPLETE THEIR WORK ON AMENDMENT IN THE LIGHT OF THE GUIDANCE GIVEN BY THE COMMITTEE, AND EXPECTS THAT THE EXECUTIVE DIRECTORS WILL BE ABLE TO SUBMIT A COMPREHENSIVE DRAFT AMENDMENT FOR THE APPROVAL OF THE BOARD OF GOVERNORS, TOGETHER WITH A REPORT, WITHIN THE COMING WEEKS. KISSINGER

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